DEPARTMENT OF FINANCE AND TOURISM
Economics, Statistics & Fiscal Analysis Division
P.O. Box 2000, Charlottetown
Prince Edward Island
C1A 7N8

No. 19
September
1983

ECONOMIC TRENDS

1983 MID YEAR REVIEW

1. Introduction

The objective of the September issue of Economic Trends is to provide a synopsis of the economic situation in the first half of the year. For P.E.I. the available data point to significant upsurge in economic activity after the prolonged period of difficult conditions that extended from mid 1980 to late 1982. In addition, the rate of consumer price inflation slowed very significantly, averaging 5.6 per cent year over year, for Charlottetown-Summerside April to June.

2. Economic Conditions Nationally

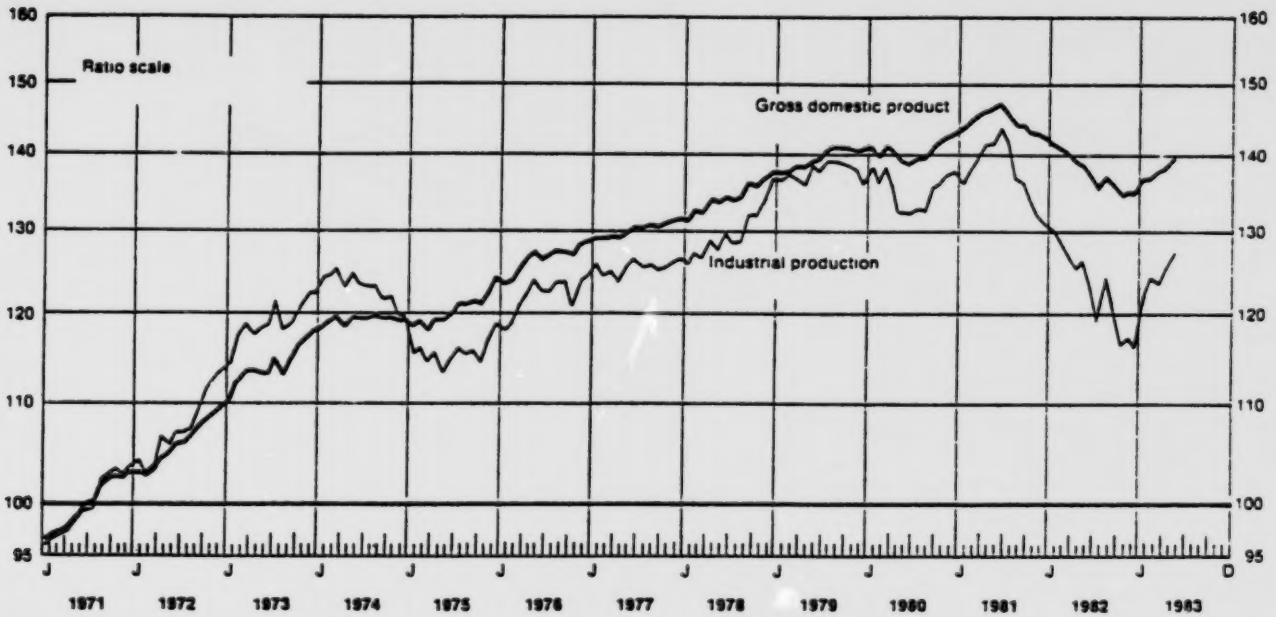
Statistics on the level of production of Canadian industry indicate that the recession of mid 1981 to the end of 1982 was of major proportions, followed by the beginnings of a recovery in the first half of 1983. In Diagrams 1 and 2 one can see the dimension of the decline as measured by Gross Domestic Product, particulary for the goods-producing industries of Canada. One can also note that the first half of 1983 witnessed a recovery from the recession, although overall levels of production remained considerably below the levels achieved in 1981.

.../2

Diagram 1

Comparison of Gross Domestic Product with Industrial Production, 1971-1983

(Seasonally Adjusted Indexes, 1971=100)

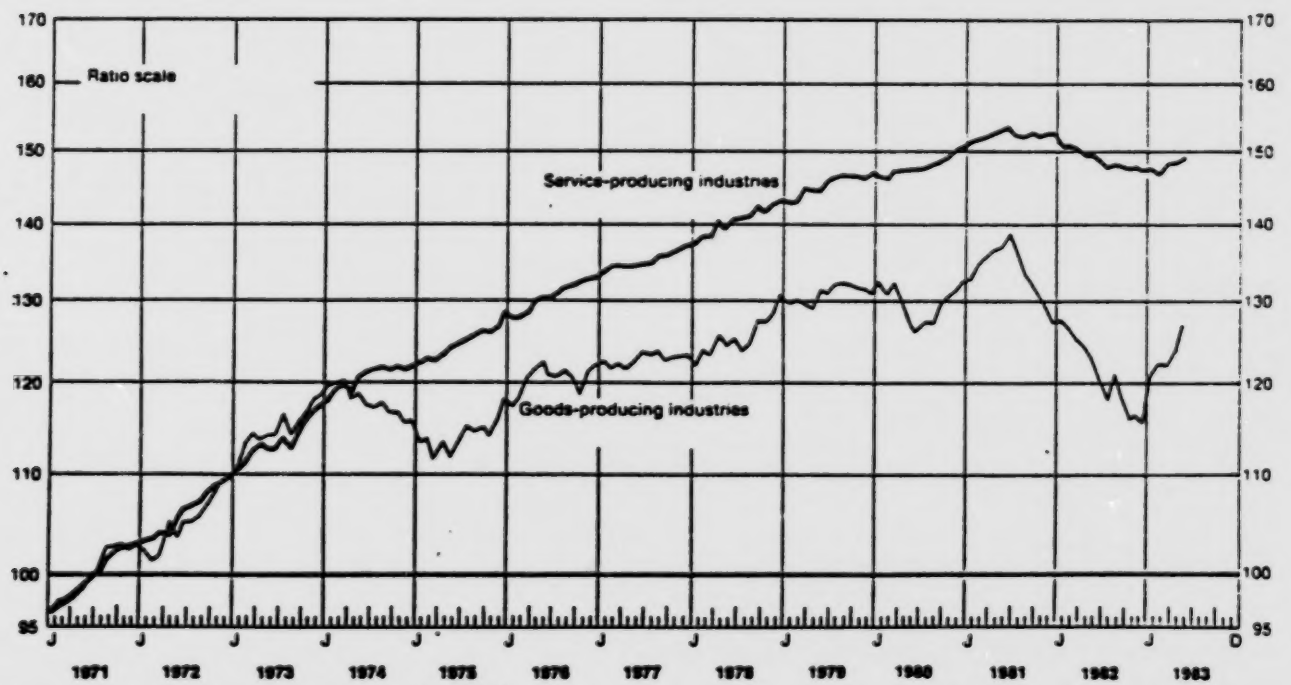


Source: Stats. Can. 61-005

Diagram 2

Comparison of Goods-producing Industries with Service-producing Industries, 1971-1983

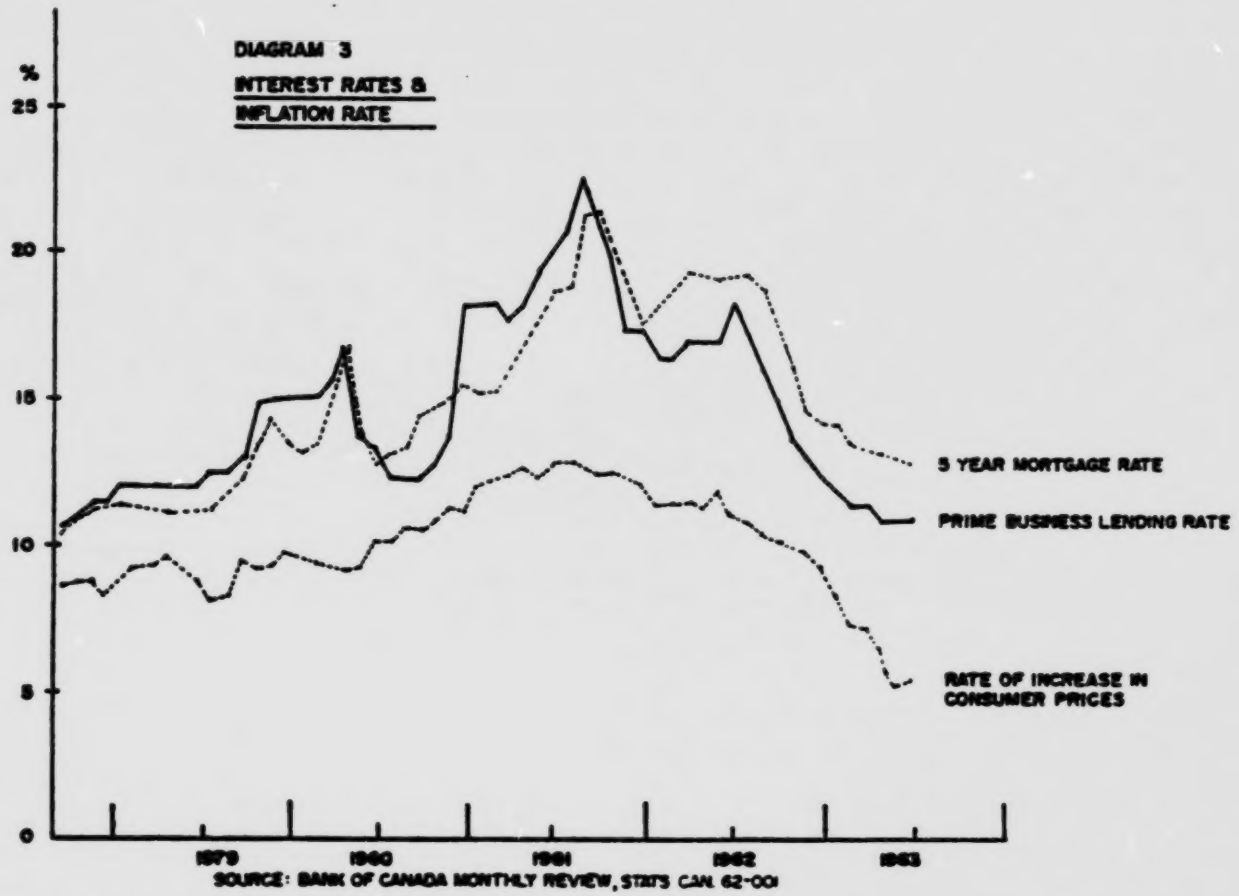
(Seasonally Adjusted Indexes, 1971=100)



Source: Stats. Can. 61-005

Statistics for the Canadian Gross National Product indicate that by the second quarter of 1983 total production had returned to approximately its level of the fourth quarter 1980, after bottoming out in the fourth quarter of 1982. Production in the second quarter remained 3.1 per cent below the peak reached in the second quarter 1981. The overall decline in GNP that occurred from the peak of mid 1981 to the trough of the fourth quarter of 1982 was -6.5 per cent. Gross National Product, in constant dollars expanded by 3.7 per cent in the first two quarters of 1983, from its level in the fourth quarter 1982.

The key issue that has dominated Canada's economic fortunes has been the control of inflation, and in turn, the resort to monetary policies as a major policy instrument. Thus the chief control mechanism over the economy has come to be interest rates, and swings in inflation and interest rates are portrayed in Diagram 3. One can see that interest rates have been both high and volatile since late 1979. The



major fall that occurred from mid 1982 to early 1983 has undoubtedly been the source of the renewed economic expansion that occurred in the first part of this year. However inflation is now down to pre-1973 rates but interest rates appear to be resisting further declines.

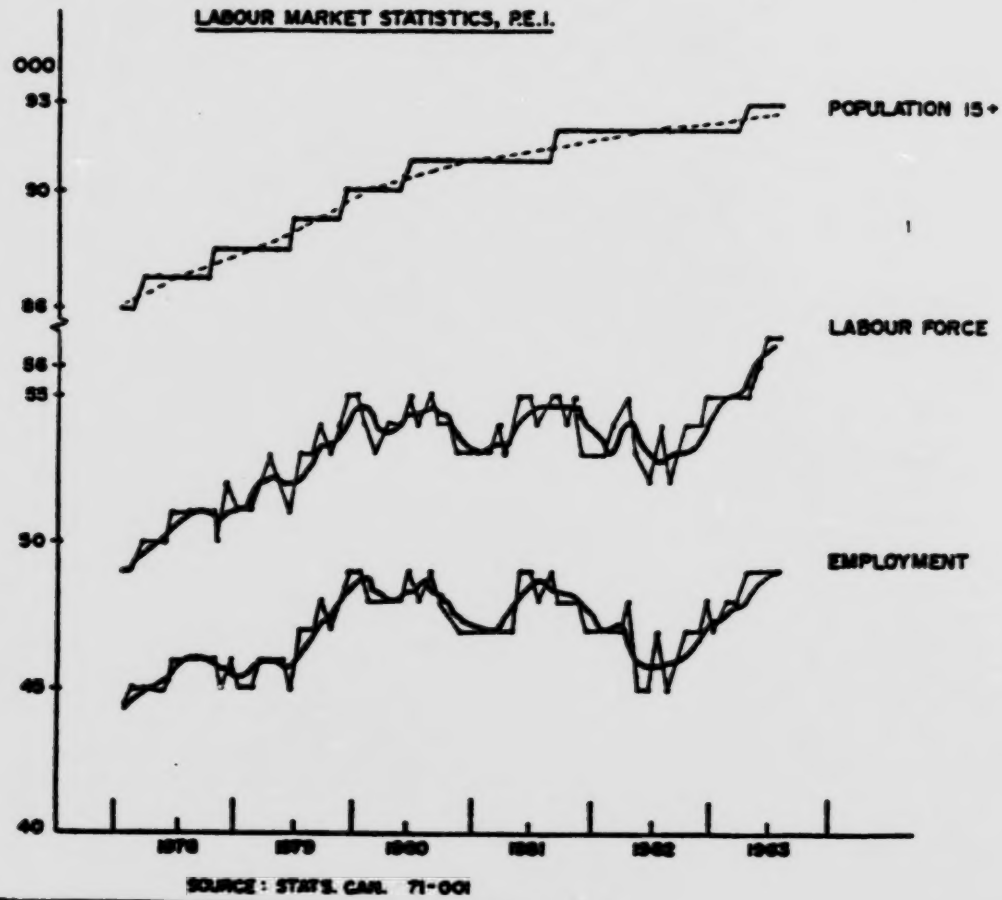
3. Population and Employment

Statistics Canada estimates the total population of P.E.I. to have been 124,000 on June 1st, 1983, and this represents renewed growth after the extremely small gains that were recorded from mid 1980 when it had reach 122,900, to 1982. The major explanation for the acceleration in population growth in 1983 appears to be the pattern of net migration which swung back to making net gains for P.E.I. from mid 1982. Overall population growth 1981-1982 was 1.0 per cent, the largest annual gain since 1978.

Diagram 4 displays monthly statistics on the population 15 years and over, the labour force, and total employment,

DIAGRAM 4

LABOUR MARKET STATISTICS, P.E.I.



SOURCE: STATS. CAN. 71-001

(Seasonally adjusted and smoothed)

.../5

where one can identify the extreme slow down in growth of the adult population that occurred in 1981 and 1982, followed by a noticeable upturn early in 1983. By June 1983 the population 15 years and over is estimated to have reached 93,000, an increase of 0.8 per cent over June 1982.

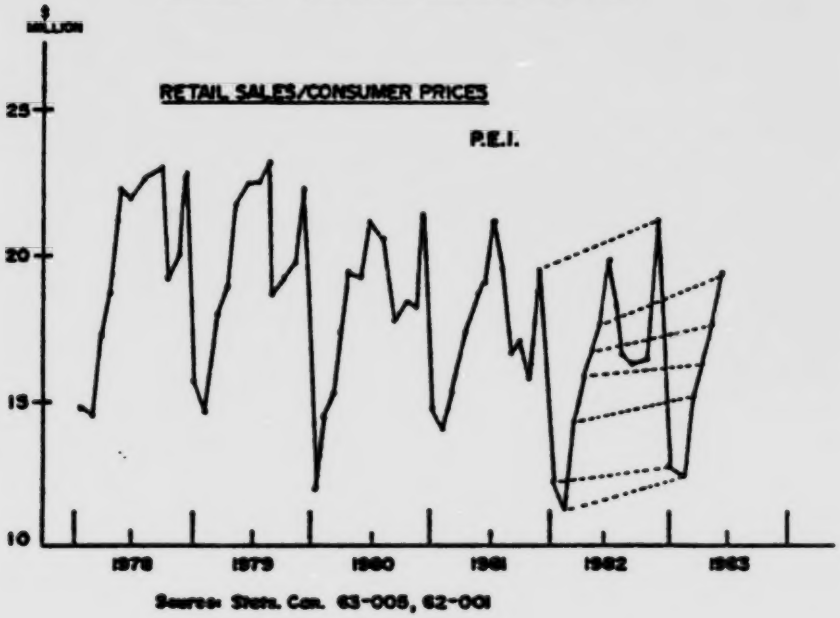
Employment on P.E.I. increased significantly from the Fall of 1982 to the present, as is apparent in Diagram 4. It went from a trough of 46,000 in mid 1982 to a high in mid 1983 of 49,000 (seasonally adjusted data). The improved employment conditions also have triggered a significant jump in labour force participation rates which caused the size of the labour force to rise very quickly during 1983. By June the labour force measured 57,000 on a seasonally adjusted basis, compared to 54,000 in 1982. Consequently, the unemployment rate did not fall despite the significant employment improvement and by June 1983 it was actually somewhat higher than in June 1982 (11.0 per cent in 1983, compared with 10.8 per cent in 1982, not seasonally adjusted). The participation rates in June and July 1983 were the highest in P.E.I.'s history, reaching 64.7 per cent and 67.0 per cent on an unadjusted basis. Rising unemployment also resulted in increased Unemployment Insurance Claims, up by 6.1 per cent June 1983 compared to June 1982.

4. Retail Activity and Housing Construction

Evidence of an upturn in consumer spending began to appear late in 1982 as Christmas sales increased significantly from the weak conditions of late 1981. Diagram 5 displays monthly statistics on retail sales, divided by the consumer price index for Charlottetown-Summerside. One can identify the significant downward trend in sales (in constant dollars) that has occurred since 1978 and the revived expenditure activity in the first half of 1983. The expansion January-June 1983, in constant dollars averaged 6.6 per cent, compared to the first half of 1982. It is also apparent

.../6

DIAGRAM 5 CONSTANT $ RETAIL SALES, P.E.I.



Source: Stats. Can. 63-005, 62-001

that retail sales in the first half of 1983 remained relatively depressed by comparison with the years preceding 1982.

Available data on retail sales by kind of Business, are displayed in Table 1, and they indicate a major increase in business by motor vehicle dealers in 1983, and this activity represented 21 per cent of the value of all retail business on P.E.I. in the first half of the year. During this period, 2,792 new passenger cars were sold, which was 86.3 per cent more than in January-June 1982.

.../7

Table 1

Value of Retail Trade, by Kind of Business,

P.E.I., January - June, 1983, Current $

	$'000	% Change from Jan.-June 1982
Combination Stores	37,560	+7.9
Department Stores	26,937	+14.8
General Merchandise	9,289	+25.1
General Stores	5,533	+7.8
Motor Vehicle Dealers	43,205	+37.6
Men's Clothing	1,418	+7.5
Women's Clothing	2,485	+22.8
Hardware Stores	5,533	+24.2
Pharmacies, Drug Stores	9,619	+19.1
Jewellery Stores	544	-1.2
Personal Accessories	927	+34.5
Other	66,051	+4.2
Total	204,239	+12.8

Source: Stats. Can. 63-005

Price increases for consumer goods slowed considerably in 1983, and by June/July had slowed to 5.2 per cent, relative to the previous year.

Table 2

Price Changes, Charlottetown-Summerside,

Selected Items, Average for June and July

	1981 - 1982	1982 - 1983
Food	4.9%	0.8%
Housing	11.2%	5.8%
Clothing	6.8%	3.4%
Energy	18.2%	7.7%
All Items	9.0%	5.2%

Source: Stats Can. 62-001

.../8

As can be seen in Table 2, reductions in price increases can be found in all major categories, with food prices being virtually constant by mid 1983. Energy remains a leading factor in price inflation, although at substantially reduced rates from recent years.

Housing construction increased significantly in the last quarter of 1982 and continued to increase in the first half of 1983, having come to a virtual standstill at the end of 1981. The 248 housing starts recorded for P.E.I. in the second quarter of 1983 were the highest number of starts since late 1979. Data concerning houses under construction are presented in Diagram 6.

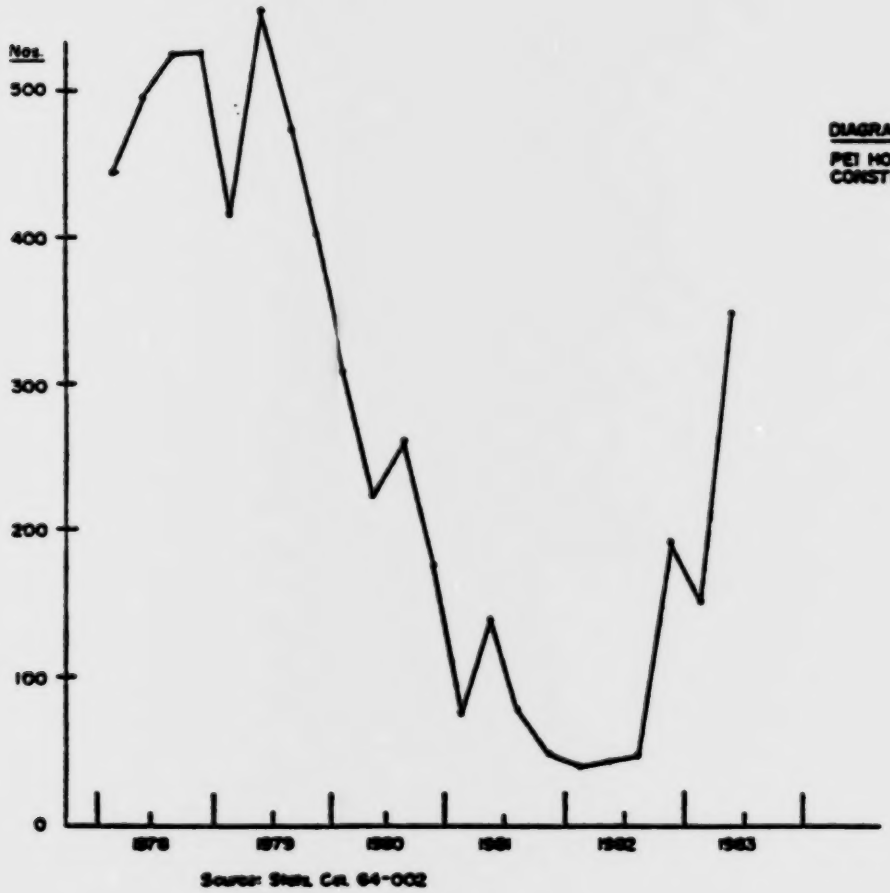


DIAGRAM 6
PEI HOUSES UNDER CONSTRUCTION

.../9

5. Industrial Activity

Farm cash receipts have continued the decline in 1983 that developed following the major potato price escalation that occurred in late 1980 and early 1981. In addition the

Table 3

Farm Cash Receipts, P.E.I.

Jan. - June, 1978-1983

'000$

	1978	1979	1980	1981	1982	1983
Potatoes	16,075	18,551	17,971	59,220	34,329	30,306
Cattle	9,462	12,055	11,483	9,404	10,873	6,936
Hogs	7,546	9,488	9,439	10,584	11,463	10,436
Dairy	6,558	7,712	9,816	12,224	14,034	13,111
Other	11,325	16,469	17,416	21,807	19,347	24,014
Total	50,966	64,275	66,125	113,239	90,026	84,803

Source: Stats. Can. 21-001

value of farm sales for beef, hogs and dairy products also declined in the first half of 1983, as Table 3 indicates. Overall farm cash receipts valued an estimated $84.8 million in the first half of 1983, a 5.8 per cent drop from their value in the first half of 1982.

Statistics on P.E.I. fisheries indicate that landings of lobster Jan. - June actually exceeded the record landings for the whole of 1982, and thus the Island's lobster sector appears to be having a bumper year in 1983. Significant increases in landings are also recorded for other fish species. The value of total fish landings for the first half of 1983 is up by 40 per cent its value for the first half of 1982.

.../10

Preliminary statistics on tourist visitation in the early summer of 1983 indicate a small decline relative to 1982, with significant declines occurring with respect to the number of tourists from Quebec, Ontario and Newfoundland. Data on motor vehicle traffic between May 15 - June 30 show that 75.6 per cent of all non-resident vehicles at the ferry terminals originated in New Brunswick and Nova Scotia.

Available statistics on the value of shipments of manufactured goods on P.E.I. indicate that a surprising recovery took place during the first half of the year, with an increase of 14 per cent in current dollars, as can be seen in Table 4. This occurred despite reductions in dairy and meat production. The evidence points to a major increase in the value of fish product sales after the slump of 1982, coupled with significant increases in vegetable product sales. Employment in manufacturing also made small gains in the early summer according to the Labour Force Survey, following two years of declines, averaging 4,400 per month May-July 1983.

Table 4

January - June, Manufacturing Shipments

P.E.I.

	1980	1981	1982	1983
Value of Shipments $ million	114.9	121.7	126.0	143.7
% Change from Previous Year	+11.2	+5.9%	+3.5%	+14.0%

Source: Stats. Can. 31-001

The construction industry has benefitted from the significant upturn in residential construction in the first half of 1983, but the overall level of construction activity on P.E.I. is forecast to decline in 1983, according to the Mid 1983 Investment Intentions survey of Statistics Canada. The total value (current dollars) of new non-residential construction for 1983 is estimated as $84.0 million, compared

.../11

to $98.4 million in 1982 with declines in many sectors. Consequently employment gains in construction in 1983 have been very weak.

The economic sector showing the most significant expansion in early 1983 is Community, Business and Personal Services. Employment gains in the service sector provided the major contribution to overall employment gains in 1983, and its level averaged 16,000 January - June 1983, making it easily the largest sector on P.E.I. There is little comprehensive information on this industrial group which to a large degree consists of publicly funded activities such as schools and hospitals. Other aspects of this industry include restaurants, hotels, tourist attractions, etc. Available data point to significant increases in restaurant and tavern receipts in the first half of 1983, which valued $16.3 million, a 15 per cent increase over the first half of 1982.

Information on the public sector is available only to March and this indicates small increases in numbers of employees both federally and provincially. Statistics Canada reports 3,026 federal employees and 4,246 provincial employees in General Government Services in March 1983, an increase of 2.5 per cent over March 1982. The combined monthly payroll at both levels is reported as $14.1 million for March 1983.

6. Summary and Conclusions

The statistics on the Island economy in the first half of 1983 mark a noticeable break from the depressing declines that had become familiar reading in recent years. With the noticeable exceptions of agriculture and tourism, and to an extent non-residential construction, one can identify a general upturn. The major factor appears to be renewed consumer confidence, with a particularly identifiable jump in automobile purchases and new housing construction. An added bonus for P.E.I. is the exceptionally good fishing season and the general movement of federal functions under Veteran's Affairs to P.E.I.

Looking ahead, the prospect of good potato markets coupled with the likelihood of a good harvest suggests that the agricultural sector has every chance of a major rebound this Fall following two to three years of falling incomes. Next Spring, the remaining functions within Veterans Affairs are to be moved to P.E.I. and the Convention Centre will also be opening its doors in the coming months, providing an opportunity for renewed growth of tourism. Islanders can also look forward to the coming of the Atlantic Veterinary College after years of uncertainty.

.../12

Tempering these positive aspects of the coming months for P.E.I. there are major concerns that interest rates are not low enough to permit the economic recovery to gain momentum in North America. In addition, one must bear in mind that levels of production generally remain below those achieved in recent years. Population growth has thus kept unemployment at very high levels. Finally, even continued growth of the kind experienced in the first half of the year will produce less dramatic statistics when compared with data for the final quarter of 1982 when some aspects of the P.E.I. economy had already begun to improve. Nonetheless the economic situation does appear considerably better on balance, relative to the conditions experienced in recent years, and provides a basis for optimism as we move into the second half of 1983.